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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2006 and implementation of the recommendations of the Board relating to the biennium 2004-2005

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report (in advance unedited form) of the Board of Auditors on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2006 (A/62/5/Add.5), as well as an advance copy of the Board's report on the implementation of its recommendations relating to the biennium 2004-2005 (see A/62/120). During its consideration of the reports the Advisory Committee met with members of the Audit Operations Committee, who provided additional information and clarification.

2. The Advisory Committee will consider the Board's report on the capital master plan for the year ended 31 December 2006 (A/62/5 (Vol. V)) when it takes up the fifth annual progress report of the Secretary-General on the implementation of the capital master plan, which it expects to receive in the coming weeks.

II. Voluntary funds administered by the United Nations High Commissioner for Refugees

3. The Board of Auditors issued an unqualified audit opinion on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2006 (see

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A/62/5/Add.5), but emphasized its concerns as regards the need for the timely receipt and monitoring of audit certificates in respect of implementing partners' expenditure, the deficient asset-tracking system and its impact on the accuracy of the non-expendable property disclosed in note 15 to the financial statements, and the improper recording of some expenditures incurred in 2007 as unliquidated obligations as at 31 December 2006. The Board's findings and recommendations cover such areas as treasury management, reconciliation of bank accounts and cash balances, receipt of audit certificates from implementing partners' expenditure, unliquidated obligations, non-expendable property, investments, emergency and security services, ethical standards, internal audit and fraud and presumptive fraud. **The Advisory Committee concurs with the Board's recommendations and trusts that the Office of the United Nations High Commissioner for Refugees (UNHCR) will spare no effort to implement them as a matter of priority.**

4. A number of the issues raised by the Board have also been addressed by the Advisory Committee in the context of its consideration of the biennial programme budget of UNHCR for 2008-2009 (A/AC.96/1040). Since the report of the Advisory Committee on the biennial programme budget of UNHCR is submitted directly to the Executive Committee of the High Commissioner's Programme, some of those concerns are summarized below.

5. In its report the Board stated that for the year ended 31 December 2005, of a total of 64 recommendations, 5 had been implemented by April 2007, 57 were under implementation and 2 had not been implemented. Of the 57 that were under implementation, 35 (61 per cent) related to 2005, 1 (2 per cent) to 2004, 20 (35 per cent) to 2003 and 1 (2 per cent) to 2000 (see A/62/5/Add.5, chap. II, paras. 6-8).

6. The gap between requirements and funds available to UNHCR has been a recurrent problem highlighted by both the Board and the Advisory Committee. The Committee has stressed that it is important for UNHCR to ensure predictability, flexibility and early funding, particularly in the context of the newly instituted biennial budget cycle (see A/AC.96/1026/Add.1, para. 9). With the exception of 2003, in the years from 2000 to 2005 expenditures exceeded income. In order to avoid such a situation, for 2006 UNHCR reduced its budget estimate and took measures aimed at reducing administrative costs, including restrictions on the hiring of temporary staff. This has contributed to reducing expenditures for 2006 by more than $40 million, as shown in table 5 of the report of the Board of Auditors. The Board points out, however, that the other main reason for the improvement in the financial position of UNHCR was an exchange gain of $23.7 million, compared to a loss of $36 million the previous year. Thus, in the Board's view, the sustainability of the improvement in the financial situation of UNHCR will depend on its ability "to build on these short-term remedies to secure a more permanent turnaround" (A/62/5/Add.5, chap. II, para. 27). Furthermore, the Board indicates that from 2005 to 2006 voluntary contributions decreased by nearly $24 million. The decrease in the amount of voluntary contributions presents another source of vulnerability for UNHCR, since it depends mostly on voluntary contributions. **The Advisory Committee shares the Board's concerns and urges UNHCR to increase its efforts to raise voluntary contributions.**

7. As requested by the Advisory Committee, the Board has provided an update on the practice of retention on special leave with full pay of staff members who are without assignment after the expiration of their standard assignment ("staff in

between assignments"). The findings of the Board indicate that the number of Professional staff in between assignments has decreased by 13 per cent since 2003 (from 187 in 2003 to 162 in 2006); however, from 2005 to 2006 the number of such staff increased significantly, from 113 to 162.

8. As indicated in paragraph 13 of the Board's report, it is estimated that the annual cost of staff in between assignments for UNHCR diminished by 9 per cent during the period from 2003 to 2006. However, the annual cost increased from $5.2 million in 2005 to $7.8 million in 2006. A new policy was issued in May 2006 that facilitated the placement of staff in between assignments. UNHCR stated that of the total of 162 such staff at the end of 2006, only 88 were actually not working, whereas the rest were on temporary assignments or on mission. The Board has reiterated its previous recommendations that UNHCR continue to implement a strict policy for staff in between assignments, with a view to providing every staff member with a full-time assignment in order to limit the cost for the organization (see A/58/5/Add.5, chap. II, para. 115, and A/61/5/Add.5, chap. II, para. 23). **The Advisory Committee concurs with the recommendation of the Board and recommends that the issue be urgently addressed.**

9. The Advisory Committee notes with concern that the overall rates of compliance of UNHCR with minimum operating security standards and minimum operating residential security standards were only 68 per cent and 63 per cent, respectively. The Board expresses its concern that a number of locations at phase III and above were not compliant and recommends that UNHCR ensure full compliance, especially for those duty stations. **The Committee urges priority attention to this matter.**

10. With regard to ethical standards, the Board recommends that UNHCR address the gap in current conflict-of-interest policies. **The Advisory Committee supports the recommendation of the Board and stresses the need for urgent action.**

III. Implementation of the recommendations of the Board relating to the biennium 2004-2005

11. The report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2004-2005 (see A/62/120) covers 14 United Nations entities[1] on which the Board reports on a biennial basis. The Advisory Committee will consider the Board's findings on the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund in conjunction with its consideration of the budget proposals for those three entities to be presented to the General Assembly at its sixty-second session.

[1] The United Nations, the International Trade Centre UNCTAD/WTO, the United Nations University, the United Nations Development Programme, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the United Nations Environment Programme, the United Nations Population Fund, the United Nations Human Settlements Programme, the United Nations Office on Drugs and Crime, the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund.

12. In paragraph 6 of its report, the Board describes the validation process for data provided by the entities covered in the report. The Board notes that in cases where no audit teams were scheduled to conduct a desk review, or where further audit procedures were needed to reach satisfactory conclusions, the data have been shown as not validated. As can be seen in table 1 of the report, the data for three entities — the United Nations Environment Programme, the United Nations Population Fund and the United Nations Human Settlements Programme — have not been validated.

13. As noted in paragraph 4 of the same report, at the time of preparation of the report, the audit of the United Nations Office for Project Services (UNOPS) for the biennium 2004-2005 had not been completed owing to the delay in the submission of financial statements by UNOPS. The status of implementation by UNOPS of recommendations for the biennium is therefore not covered in the Board's report. The Board states further that its audit of UNOPS was completed on 29 June 2007 (see A/61/5/Add.10). The Advisory Committee's report on the Board's report on UNOPS will be issued as an addendum to its report contained in document A/61/350.

14. **The Advisory Committee commends the Board of Auditors for the efforts it has made to streamline and improve the presentation of the report.** In this connection, the Committee notes that the length of the document has been reduced from 97 pages in 2005 to 37 in 2007. Furthermore, new elements have been introduced to increase comprehension and highlight main observations, such as an executive summary and numerous graphs and tables. In addition, the section of the report that provides statistical data concerning the status of implementation of recommendations has been augmented to include a general analysis and overall observations. **The Committee finds this information useful and encourages the Board to continue to refine its report along these lines.**

15. As noted in paragraph 8 and table 2 of the report, the number of recommendations made by the Board has more than tripled over the past four bienniums and has increased by 28 per cent over the last biennium. However, despite the increase, the rate of implementation has improved in comparison with the previous biennium (see A/62/120, table 3). Of a total of 651 recommendations made by the Board for the biennium 2004-2005, 342 (52 per cent) had been implemented as at 31 March 2007, 276 (43 per cent) were under implementation, 5 (1 per cent) had been overtaken by events and 28 (4 per cent) had not been implemented. In comparison, of the 509 recommendations for the biennium 2002-2003, 235 (46 per cent) had been implemented as at 31 May 2005, 230 (45 per cent) were under implementation and 44 (9 per cent) had not been implemented.

16. The Board cites a number of common reasons for lack of full implementation, including: (a) the lack of a dedicated follow-up mechanism; (b) the lack of sufficient inter-agency coordination in the implementation of recommendations pertaining to more than one organization; and (c) the undertaking of medium-term projects in areas such as information and communications technology, human resources management, procurement and treasury management (see A/62/120, para. 11).

17. Further, the Board has identified good practices in relation to the implementation and follow-up of its recommendations, which include: (a) identification and monitoring of a list of top-priority audit issues; (b) validation of management's assessment of the status of implementation of the Board's

recommendations by internal auditors; and (c) identification of causes of recurring audit observations and development of appropriate action plans to address them.

18. The lines of accountability for implementation of the Board's recommendations in the United Nations Secretariat, as stated by the Administration, are described in paragraph 18 of the report. The Department of Management is tasked with ensuring that the responsibility for the implementation of recommendations is assigned to the appropriate programme manager. The Secretary-General has entrusted the Management Committee with overall responsibility for ensuring that programme managers are effectively implementing recommendations in a timely manner. The Advisory Committee has commented on numerous occasions concerning "the need for further efforts to develop a strong culture of accountability within the United Nations ... as well as to ensure that implementation of the Board's recommendations becomes an integral part of the workplans, activities and processes of the organizational units concerned" (A/61/350, para. 12; see also A/59/400, para. 11). Upon enquiry as to further measures that might be taken to increase accountability in this regard, members of the Audit Operations Committee expressed the view that, in addition to a follow-up mechanism consisting of high-level management support in the form of a standing committee, there must also be regular reporting, an adequate information technology system to track implementation in real time and monitoring throughout the year. **The Committee recommends to the General Assembly that it urge the Secretary-General to establish this long-awaited follow-up mechanism (see General Assembly resolution 61/233 A, paras. 18-20).**

19. The Advisory Committee notes that the rate of implementation by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) appears slow; of the 34 recommendations made by the Board for the biennium 2004-2005, only 9 have been implemented, 17 are under implementation, 7 have not been implemented and 1 has been overtaken by events. However, as indicated in paragraphs 44 to 48 of the Board's report, the low rate of implementation could be explained in part by the fact that many of the recommendations were multi-year, requiring sustained effort in order to be fully implemented. Further, the Committee was informed by members of the Audit Operations Committee that UNRWA was committed to implementing the outstanding recommendations as expeditiously as possible and to that end had recently established an Audit and Inspection Committee with outside expertise to monitor implementation. **The Committee encourages UNRWA to continue efforts to expedite implementation of the Board's recommendations.**

20. The low rate of implementation by the United Nations Institute for Training and Research (UNITAR), at only 5 per cent, gives even more cause for concern. Of the 21 recommendations by the Board, only 1 has been implemented, 5 are under implementation and 15 have not been implemented. Particularly troubling is the fact that, of the 15 unimplemented recommendations, 6 relate to fraud prevention and management. The Advisory Committee notes from paragraph 50 of the report of the Board that the Administration of UNITAR has established committees and assigned staff to address 12 of the 15 unimplemented recommendations, but was not able to provide the Board with the information required in connection with the remaining 3. **While the Committee welcomes the steps taken to address the problem, it is nevertheless concerned that such a performance may point to serious managerial lapses requiring urgent remedial action. The Committee will revert**

to the matter in the context of its consideration of the programme budget for UNITAR and expects that representatives of UNITAR will be prepared to provide the Committee with a full accounting of measures it proposes to take to implement the recommendations of the Board expeditiously.

21. Of the 42 recommendations made by the Board with respect to the accounts of the United Nations Population Fund (UNFPA), 21 had been implemented and 21 were under implementation. Of those under implementation, 6 are related to procurement and contract management and 5 to human resources management. The Advisory Committee is particularly concerned about the low rate of implementation of recommendations on procurement and contract management. In this connection, it notes the Board's finding that the policy for the receipt of gifts by Procurement Services Section staff was not in accordance with the United Nations policy. As indicated in paragraph 54 of the report of the Board, UNFPA has stated that a suitable amendment would be made in the next regular update, in the summer of 2007. The Committee will take this matter up when it considers the budget of UNFPA in the coming months.